SB 19-055

Legislative Council Staff

Nonpartisan Services for Colorado's Legislature

FISCAL NOTE

Drafting Number:	LLS 19-0730	**Date:**	January 22, 2019
Prime Sponsors:	Sen. Sonnenberg Rep. Pelton	**Bill Status:**	Senate Finance
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Bill Topic: REDUCE THE STATE INCOME TAX RATE

Summary of Fiscal Impact:

- ☒ State Revenue
- ☒ State Expenditure
- ☐ State Transfer
- ☒ TABOR Refund
- ☐ Local Government
- ☐ Statutory Public Entity

This bill reduces the state income tax rate from 4.63 percent to 4.49 percent for 2019 and all subsequent tax years and makes corresponding changes to the alternative minimum tax. It requires one-time implementation expenditures and reduces General Fund revenue on an ongoing basis.

Appropriation Summary: For FY 2019-20, the bill requires a General Fund appropriation of $6,726 to the Department of Revenue.

Fiscal Note Status: This fiscal note reflects the introduced bill.

Table 1
State Fiscal Impacts Under SB 19-055

		FY 2018-19 *(current year)*	FY 2019-20	FY 2020-21
Revenue	General Fund	($142.6 million)	($280.3 million)	($284.6 million)
Expenditures	General Fund	-	$6,726	-
Transfers		-	-	-
TABOR Refund	General Fund	($142.6 million)	($189.0 million)	-

Summary of Legislation

For tax year 2019 and all subsequent years, this bill reduces the state income tax rate from 4.63 percent to 4.49 percent.

The bill also reduces the alternative minimum tax rate from 3.47 percent to 3.33 percent and reduces the percentage of the federal alternative minimum tax credit allowed to Colorado alternative minimum taxpayers from 12.00 percent to 11.86 percent. Additionally, the income tax rate used in years when the income tax rate reduction TABOR refund mechanism is triggered is reduced from 4.50 percent to 4.363930678 percent.

State Revenue

This bill reduces General Fund revenue by an estimated $142.6 million in the current FY 2018-19, $280.3 million in FY 2019-20, $284.6 million in FY 2020-21, and similar amounts in subsequent years. The amount for the current FY 2018-19 represents a half-year impact for tax year 2019 on an accrual accounting basis.

Tax rate reduction. Beginning in tax year 2019, this fiscal note assumes that individual and corporate income tax revenue will each be reduced by 3.02 percent, the proportion by which this bill reduces the income tax rate. Revenue reductions are applied relative to expectations published in the December 2018 Legislative Council Staff forecast. Alternative minimum tax revenue is assumed to be reduced proportionally to individual income tax revenue as these revenue streams are forecast together. Both income tax and alternative minimum tax revenue are subject to TABOR.

This fiscal note does not account for any economic stimulus attributable to a tax rate reduction of this magnitude. To the extent that the lower tax rate increases pre-tax personal income via increased employment or compensation, or consumer spending on goods and services subject to the state sales tax, the amount of the estimated revenue reduction will be partially offset.

Conservation easement credit. The bill is expected to increase income tax revenue by $5.0 million in tax year 2020 by reducing the value of allowed conservation easement income tax credits. In most years, the conservation easement credit is nonrefundable. In tax years following fiscal years when the state collects a TABOR surplus, the credit is partially refundable, meaning a larger credit is available to some taxpayers and state income tax revenue is reduced. This bill is expected to eliminate the TABOR surplus currently anticipated for FY 2019-20, making the credit fully nonrefundable in tax year 2020 and increasing income tax revenue. This increase will partially offset the revenue reductions anticipated for FY 2019-20 and FY 2020-21.

State Expenditures

The bill increases state expenditures by $6,726 in FY 2019-20 only, increases workload in multiple agencies beginning in the current FY 2018-19, and decreases state General Fund obligations for TABOR refunds, as discussed below.

Software programming. For FY 2018-19, this bill requires one-time General Fund expenditures of $6,726 to program, test, and update database fields in the Department of Revenue's GenTax software system. Programming costs are estimated at $250, representing one hour of contract programming. Costs for testing at the department are estimated at $3,840, representing 160 hours of testing at a rate of $24 per hour. Expenditures in the Office of Research and Analysis are required for changes in the related GenTax reports so that the department can access and document tax statistics related to the new tax policy. These costs are estimated at $2,636.

Rulemaking. Conforming changes to Department of Revenue regulations will be required during the current FY 2018-19 and can be accomplished within existing Department of Revenue and Department of Law appropriations.

TABOR refunds. The bill is expected to decrease state General Fund obligations for TABOR refunds by $142.6 million in the current FY 2018-19. Under current law and the December 2018 forecast, the bill will correspondingly reduce the amount refunded to taxpayers via sales tax refunds on income tax returns for the current tax year 2019.

The bill is expected to eliminate the $189.0 million General Fund obligation for TABOR refunds expected for FY 2019-20 under current law, thereby eliminating refunds to taxpayers currently expected to be paid in FY 2020-21. Specifically, the bill will eliminate $39.5 million in sales tax refunds expected to be paid on income tax returns for tax year 2020, as well as $149.5 million expected to be refunded via reimbursements to local governments for their property tax loss associated with the senior and disabled veteran property tax exemptions. Because the TABOR surplus set aside in FY 2019-20 will no longer be available to finance property tax reimbursements, the bill will obligate an equal amount for reimbursements to be paid from the FY 2020-21 General Fund budget instead.

The state is not expected to collect a TABOR surplus in FY 2020-21. A forecast of state revenue subject to TABOR is not yet available for FY 2021-22 and subsequent years.

Technical Note

The bill changes the income tax rate for the current tax year 2019, for which wage withholding schedules have already been prepared by the DOR and implemented by employers. Retroactive changes to the withholding schedules will require emergency rulemaking during the current FY 2018-19. This provision also may distort income tax collections for 2019, with a disproportionately large share of tax withheld requiring greater than usual income tax refunds in early 2020.

Effective Date

The bill takes effect August 2, 2019, if the General Assembly adjourns on May 3, 2019, as scheduled, and no referendum petition is filed.

State Appropriations

For FY 2019-20, the bill requires a General Fund appropriation of $6,726 to the Department of Revenue.

State and Local Government Contacts

Information Technology Personnel Revenue